

3rd May, 1950.

PRESENT: —

HIS EXCELLENCY THE GOVERNOR (SIR ALEXANDER WILLIAM GEORGE HERDER GRANTHAM, K.C.M.G.).

HIS EXCELLENCY THE GENERAL OFFICER COMMANDING IN CHIEF (LIEUTENANT-GENERAL SIR E. G. R. MANSERGH, K.B.E., C.B., M.C.).

THE COLONIAL SECRETARY (HON. R. R. TODD, *Acting*).

THE ATTORNEY GENERAL (HON. J. B. GRIFFIN, K.C.).

THE SECRETARY FOR CHINESE AFFAIRS (HON. J. C. McDouALL, *Acting*).

THE FINANCIAL SECRETARY (HON. A. G. CLARKE, *Acting*).

DR. HON. I. NEWTON (Director of Medical Services).

DR. HON. J. P. FEHILY, O.B.E. (Chairman, Urban Council).

HON. A. P. WEIR (Acting Director of Public Works).

HON. CHAU TSUN NIN, C.B.E.

HON. SIR MAN KAM LO, KT., C.B.E.

DR. HON. CHAU SIK NIN.

HON. LEO D'ALMADA E CASTRO, K.C.

HON. P. S. CASSIDY.

MR. G. C. HAMILTON (Clerk of Councils).

ABSENT: —

HON. M. M. WATSON.

HON. C. E. M. TERRY.

MINUTES.

The Minutes of the meeting of the Council held on 19th April, 1950, were confirmed.

OATHS.

Mr. A. G. Clarke and Mr. A. P. Weir took the Oath of Allegiance and assumed their seats as Members of the Council.

PAPERS.

THE COLONIAL SECRETARY, by command of His Excellency the Governor, laid upon the table the following papers: —

The New Territories Regulation Ord., 1910, —Order under S. 6A(2)(a). (G.N. No. A. 76 of 1950).

The Public Health (Sanitation) Ord., 1935, —Order under S. 99. (G.N. No. A. 77 of 1950).

The Dutiable Commodities Ord., 1931, — Amendments to the First Schedule. (G.N. No. A. 78 of 1950).

The Rating Ord., 1901, —Order under S. 8(2). (G.N. No. A. 79 of 1950).

The Immigrants Control (Amendment) Regulations, 1950. (G.N. No. A. 80 of 1950).

The Places for Post Mortem (Amendment) (No. 2) Order, 1950. (G.N. No. A. 81 of 1950).

The Immigrants Control (Amendment) (No. 2) Regulations, 1950. (G.N. No. A. 83 of 1950).

The Price Control Order, 1946, —Amendments to the Schedule. (G.N. No. A. 84 of 1950).

Annual Report of the Director of Education for the year 1948/49.

MOTIONS.

THE FINANCIAL SECRETARY moved the following resolution: —

Resolved that this Council approve the accounting arrangements proposed for the Department of Supplies and Distribution in His Excellency the Governor's Despatch No. 48 of the 19th March, 1949, and approved by the Secretary of State for the Colonies in his Despatch No. 226 of the 27th September, 1949; and that this Council further approve that the limit of \$10,000,000 proposed for the Japanese Trade Suspense Account be increased to \$15,000,000.

He said: Sir, the correspondence referred to in the resolution has been in the hands of Honourable Members for some days, and I am sure that they will not wish me to weary them with a recapitulation of all the details set forth in them. Nevertheless, an explanation of the increase in the limit for the Japanese Trade Account is required, and possibly some particulars of the present position will be of interest.

It is now common knowledge that Government has taken the decision to terminate the existence of the Supplies and Distribution Department as a separate entity, and to amalgamate it with the Department of Commerce and Industry. The first step to this end has been taken by the appointment of one officer to be head of both departments. That officer happens to be myself, and if, in the course of my remarks, it appears that I am sometimes speaking as Director of Supplies and Distribution rather than as Acting Financial Secretary, I trust that Honourable Members will appreciate my difficulties.

It is as yet a little too early to say how the amalgamation of the two Departments will be carried out, and, quite apart from the difficulties of office accommodation, it is felt that the most satisfactory results will be attained if things are not rushed. I think I can promise, however, that concrete results may be expected in the not too distant future.

I need hardly comment on the accounting deficiencies of the past which have been disclosed in the papers laid before this Council. Messrs. Lowe, Bingham & Matthews have produced accounts for the period of the British Military Administration, and are working steadily on the accounts from the 1st May, 1946, which will be communicated to this Council as soon as they are available. The accounts for the B.M.A. period, with which is bound up the question of our liability for the proceeds of sale of B.M.A. stores, which were inherited by the Civil Government, are now under consideration in London. This is an example of the difficulties with which we are faced in our endeavour to ascertain how we stand financially.

The question as to whether the accounts should continue to be audited by Messrs. Lowe, Bingham & Matthews after the accounts for the past have been cleared up is one that is not clearly brought out in the correspondence; it is Government's view that this course would be advisable, and the matter is now under consideration.

Japan Trade has been much in the mind of the public since the devaluation of sterling. The general principle on which this trade is operated is well known, and at the time Your Excellency's Despatch was sent, the limit of 10 million dollars was set for the Suspense Account as being the equivalent of 2½ million U.S. dollars, the limit to which we proposed to work on the open account. Since that time, sterling, and with it the

Hong Kong dollar, has been devalued in terms of U.S. currency, and to work to the same limit on the open account, it is necessary to seek the approval of this Council for the limit on the Suspense Account to be increased to the new equivalent of 2½ million U.S. dollars. To the nearest round figure this is taken as 15 million Hong Kong dollars.

I have to admit frankly that when I took over the Department of Supplies and Distribution I found that the Japanese Trade Suspense Account exceeded 15 million dollars, and it still exceeds that total. This position results from the crisis which followed on devaluation and the interruption in trade which was necessary to enable us to take stock. It was thought at that time that, being in an oversold position, we should have to take a heavy loss, but measures which have since been taken, and are still being taken, have materially reduced our initial estimate, and it now looks as if our devaluation loss will be more than offset by profits made before and since. Honourable Members will not, I trust, expect me to commit myself on this matter until it proves possible to produce properly audited accounts. These cannot be produced until they have been reconciled with those maintained with the Supreme Commander of the Allied Powers, who seems to have experienced even greater difficulties in maintaining his accounts than has this Government.

It is now common knowledge that Government has recently succeeded in divesting itself of some of its responsibilities for Japanese trade, and this step should in time result in considerable savings.

If I may revert again to the question of the limit to the Suspense Account, I am sure that Honourable Members will understand that keeping to it is a task of some difficulty. When a merchant exports goods to Japan, he is granted the privilege of importing goods to the value of 60% of his exports. Now the Suspense Account is debited with the value of his exports when they are made, but it may not be credited with the value of the imports until possibly as long as eight months afterwards. Thus, it is comparatively simple to keep the forward position within the approved limit, but when the lesson of devaluation is fresh in our minds, the maintenance of the limit on the actual cash position is a source of constant anxiety. None the less, I can assure Honourable Members that efforts are now being made to bring the balance down to \$15 millions, and if experience should finally convince us that on the existing volume of trade, the limit is too low, the approval of this Council will be sought for an increase.

On the subject of Government trading generally, I can but repeat the words in Your Excellency's Despatch, that Government views its continuance without enthusiasm. Efforts have been made in the past to return the procurement of coal and flour to private hands, but these efforts were unsuccessful.

Government now feels that it has certain definite responsibilities to the public in this matter. If trading in any essential commodity is to be returned to private hands, Government must be assured firstly, there will not be an undue rise in cost to the consumer, to increase yet further the cost of living; and secondly, that adequate stocks will be maintained against a possible emergency.

THE COLONIAL SECRETARY seconded, and the Motion was carried.

INLAND REVENUE (AMENDMENT) BILL, 1950.

THE FINANCIAL SECRETARY moved the First reading of a Bill intitled "An Ordinance to amend the Inland Revenue Ordinance, 1947". He said: Sir, Honourable Members will recollect that in the course of the debate on the Estimates, the Financial Secretary indicated that the sum of \$12 millions would have to be raised by new taxation to cover the revised Estimate of Expenditure and give us a surplus of \$3 millions, and they will remember also that the Revenue Estimates as originally framed were amended firstly by the alteration of the figure for Earnings and Profits Tax from \$38 millions to \$44 millions, and secondly, by the introduction of a new item of \$6 millions for Business Registration Tax.

It was first proposed that the standard rate of tax on Earnings and Profits should be increased by 50%. As a result of the helpful suggestions by Honourable Members in the course of the debate, Government now proposes to raise \$6 millions by increasing the standard rate of tax by 25%, that is, from 10% to 12% and to make up the additional revenue still required, by the imposition of a Business Registration Tax. Work is now in hand on the drafting of an Ordinance for this latter purpose.

The bill now before this Council provides for the increase of 25% in the standard rate of tax on earnings and profits. It is a short Bill, and provides only for the increase in the tax and for certain concessions to the payer of Salaries Tax which were forecast by the Financial Secretary in this Council. The Attorney General's Memorandum on the Bill is so full, that there is only one thing that I can usefully add. The relating of "rental value" to a percentage of the taxpayer's income takes care of anybody who occupies good quarters, but it might easily bear very hardly on a person with a sizeable income who occupies poor quarters. The Bill accordingly provides that any taxpayer occupying a tenement who so desires, may elect to be assessed on the rateable value rather than on the artificial rental value related to his income, if he thinks it will be to his advantage. And to avert a rush of applications to elect from those who must live in hotels or hostels, it is provided that such persons should receive a further concession in any event.

The effect of the concession to persons liable to Salaries Tax, or paying under the Personal Assessment scheme, which

are contained in Clauses 4 and 6 of the Bill, is that a married man without children, for example, will at the new rate pay exactly the same as he paid at the old rate unless his salary exceeds \$1,000 a week. Indeed, in many cases he may pay less, thanks to the concession in regard to quarters supplied by the employer. I should add that for some time past the Commissioner of Inland Revenue has been pressing for a number of amendments to the Inland Revenue Ordinance, mainly in the interests of the smoother running of his department, and indeed I understand that some of these amendments have been suggested by local professional associations. However desirable some of these amendments may be, Government has decided that they must be considered separately from the question of an increase in the rate of tax, so that neither issue can be clouded by the other. The Commissioner has therefore been authorized to proceed with the drafting of a further amending bill after this present one has been disposed of, and his proposals will in due course be submitted for the consideration of Honourable Members after scrutiny by Government.

I feel that I must emphasize that although the enactment of this Bill and of the forthcoming Business Registration Bill would give us a paper surplus of \$3 millions, the position is not such as to give cause for any complacency. Already it appears that in the near future we may have to meet heavy bills for further security measures, and the possible effect on our finances of the discussions now proceeding in London must be borne in mind. The Estimates do not provide for these contingencies.

THE COLONIAL SECRETARY seconded, and the Bill was read a First time.

OBJECTS AND REASONS.

The "Objects and Reasons" for the Bill were stated as follows: —

It is anticipated that unless an increase in taxation is authorized a deficit will result in regard to revenue and expenditure for the Colony for the financial year 1950-51. This Bill is primarily designed so to amend the Inland Revenue Ordinance, 1947 (the principal Ordinance) as to permit of an increase in the standard rate of tax.

2. In the Bill—

Clause 2 provides for the repeal and replacement of section 5 of the principal Ordinance to alter the standard rate from 10%, as now existing, to 12½%.

Clause 3 provides for the repeal and replacement of section 10(2) of the principal Ordinance. Such provision, which governs the valuation for purposes of tax of places of residence provided by an employer, has proved cumbersome and inequitable in practice. The opportunity is therefore taken to

provide by the amendment proposed for a simpler method which allows of the application of 7½% of the other income and perquisites derived from an employer in ascertaining the rental value of a place of residence for the purposes of tax. The proposed amendment makes provision whereby inequity to a tax payer may be avoided—

(a) by allowing a lower rate than 7½% of other income and perquisites derived from an employer where place of residence consists of restricted accommodation in a hotel, hostel or boarding house; and

(b) in other cases by allowing a person to elect to have rateable value substituted for such rental value at 7½%.

Clause 4. This clause provides for the repeal and replacement of section 14 of the principal Ordinance so that addition to the burden of the majority of salary earners as a result of the proposed increase in the standard rate will be avoided. This position will result from the fact that it is proposed by the amendment to introduce graduations of one-fifth of the standard rate instead of quarters of the standard rate as at present specified in the section. The effect would be to charge no increase in tax on the first \$40,000 of taxable income of employees.

Clause 5. A consequential amendment to section 30, stipulating deduction of tax at the new rate from payments or credits of interest on mortgages, etc., is provided by this amendment, and a proviso to the clause restricts such new provisions to payments or credits made after the Bill becomes law.

Clause 6. This clause provides for the repeal and replacement of section 44(1) of the principal Ordinance so as to apply the same graduation of rates to Personal Assessment as the amendment proposed by clause 4 applies to Salaries and Annuities Tax.

Clause 7. This clause provides that the legislation proposed shall have effect from the 1st April, 1950, *i.e.* the commencement of the financial year, but provides for the continuation of the previous method of assessment for assessments and recovery of tax still to be made for past years.

LAW REVISION (MISCELLANEOUS AMENDMENTS)

BILL, 1950.

THE ATTORNEY GENERAL moved the Second reading of a Bill intituled "An Ordinance to make amendments to miscellaneous Ordinances for the purpose of facilitating the preparation of the revised edition of the laws".

THE COLONIAL SECRETARY seconded, and the Bill was read a Second time.

Council then went into Committee to consider the Bill clause by clause.

Council then resumed.

THE ATTORNEY GENERAL reported that the Law Revision (Miscellaneous Amendments) Bill, 1950, had passed through Committee without amendment, and moved the Third reading.

THE COLONIAL SECRETARY seconded, and the Bill was read a Third time and passed into law.

ADJOURNMENT.

H.E. THE GOVERNOR: — That concludes the business, Gentlemen. When is it your pleasure that we should meet again?

THE ATTORNEY GENERAL: —I suggest this day fortnight, Sir.

H.E. THE GOVERNOR: —Council will adjourn to this day fortnight.
